

BLM: PORTFOLIO COMMITTEE ON FINANCE	: 22/05/2017
BLM: BUDGET STEERING COMMITTEE	: 22/05/2017
BLM: MAYORAL COMMITTEE	: 24/05/2017
BLM: COUNCIL	: 31/05/2017

BUDGET & TREASURY OFFICE

mSCOA FINAL BUDGET FOR 2017/18 FINANCIAL YEAR

1. STRATEGIC TRUST

Final Budget adoption by the Budget Steering Committee, Portfolio Committee on Finance, Mayoral Committee, and approvals by Council.

2. OBJECTIVE

- a) To present the report for mSCOA final annual budget for 2017/18 financial year.
- b) To get council approvals for 2017/18 mSCOA final budget.

3. SUMMARY

(a) Introduction and Background

Section 53, 1 (a), (b) and (c) of the MFMA, further states that:

- The Mayor of the municipality must provide political guidance over the budget processes and the priorities that must guide the preparation of the budget.
- The Mayor of the municipality should co-ordinate the annual revision of IDP in terms of Section 34 of the MSA, and the preparations of the budget.
- The Mayor should take the reasonable steps to ensure that:
 - The municipality approves its annual budget before the start of the budget year (by end of May each year).
 - The municipality's SDBIP is approved by the Mayor within 28 days after the approval of the budget.

MFMA Circular no. 84 and 85 issued by the National Treasury provide guidance to the municipal budget preparations for 2017/18 financial year in terms of mSCOA.

4. PROBLEM STATEMENT

2017/18 MTREF budget has been prepared in terms of the mSCOA template, as the municipality is required to comply with effect from the 1st July 2017. Less understanding by the directorates in budgeting as per mSCOA requirements was realized during the budgeting process.

The difference between billing for the services rendered (Water billing) and bulk water purchase from Rand Water still a major concern for the municipality. The municipality is currently working at a huge loss for water provision to the communities. Installations of water meters by the technical unit should be prioritized in order to boost revenue collection.

The municipality's revenue collection still very low and impact negatively on the municipal budget. Currently the municipality is still depending on Government Grants in order to implement the projects and service delivery to the communities within its jurisdiction.

An amount of **R 350,875,000** has been projected to be billed and collected by the municipality in 2017/18 Financial Year, and if the municipality will fails to collect as projected, there will thus be a negative impact on the municipal budget, and in turn service delivery in certain areas will be affected.

The municipality has provided an amount of **R 122,304,000** as Provision for Bad Debts for 2017/18, due to the current low collection rate. This amount serves as the difference between billing and actual collections. The municipality is currently using the Accrual System of Accounting to account for its revenue and expenditure as directed by GRAP.

The municipality still depends more on government grants in order to provide basic services to the communities. The Grants represent 81 percent of the total budget for 2017/18, while the remainder of 19 percent only represents the amount to be billed by the municipality. Actual revenue collection is very low as compared to the billing that is done on monthly basis to the consumers. The main impediments to revenue recollection in the Municipality are as follows:

- The difference between water billing V/S bulk water purchase.
- Non installations of water meters for completed water reticulation projects.
- Inconsistence supply of water to the communities.
- Sewer connection is not properly maintained
- The collection of refuse is far below the desired levels
- The data which is the basis for billing is not credible
- The debtors' book is too high especially old debtors at 120+.
- The tariff structure requires a review as some tariffs do not address cost recovery
- Inadequate engagement of communities
- Inaccurate and infrequent distribution of bills
- Rental facilities are not adequately maintained thus not generating the required revenue. (community halls, stadiums, etc)

The municipality will implement credit control and debt collection policy in order to boost own revenue collection. The service provider has been appointed to collect the outstanding debt due by the consumers.

5. FINANCIAL IMPLICATIONS

The Medium Term Revenue Expenditure Framework Grants Allocation (MTREF) in terms of the Division of Revenue Act (DoRA) has been published and Gazetted (**See Annexure A Table attached**).

The total revenue budget amounts to **R 1,582,980 000** which includes both Governments Grants and Own Revenue projections. The Table below will clearly indicate the Government Grants as projected in terms of the DoRA, and own revenue collection projected.

The Government Grants Allocations in terms of the DoRA amounts to **R1,207,212,000**, which represents **76 percent** of the total annual budget, and only **24 percent R 375,768,000**) represents own revenue to be billed and collected by the municipality as projected.

The Grants allocated in terms of the DoRA for 2017/18 MTREF are listed below :
TABLE 1

MP325 Bushbuckridge - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue &		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand										
RECEIPTS:	1, 2									
<u>Operating Transfers and Grants</u>										
National Government:		507 671	556 371	665 228	657 888	657 888	657 888	700 132	727 937	769 399
Local Government Equitable Share		485 251	545 094	635 931	647 298	647 298	647 298	683 632	719 537	750 699
Finance Management		1 550	1 600	1 675	1 810	1 810	1 810	2 145	2 400	2 700
Municipal Systems Improvement		890	934	930	–	–	–	–	–	–
EPWP Incentive		2 596	2 192	2 551	3 780	3 780	3 780	9 355	–	–
Integrated National Electrification Programme		6 656	3 492	7 200	5 000	5 000	5 000	5 000	6 000	16 000
Water Services Operating Subsidy		10 728	3 059	16 941	–	–	–	–	–	–
Other transfers/grants [insert description]										
Provincial Government:		–	–	–	–	–	–	–	–	–
Other transfers/grants [insert description]										
District Municipality:		–	450	–	–	–	–	–	–	–
Operational Grant from Ehlanzeni District		–	450	–	–	–	–	–	–	–
Other grant providers:		–	–	2 635	–	–	–	–	–	–
[insert description]										
Disaster Grant		–	–	2 635	–	–	–	–	–	–
Total Operating Transfers and Grants	5	507 671	556 821	667 863	657 888	657 888	657 888	700 132	727 937	769 399
<u>Capital Transfers and Grants</u>										
National Government:		448 644	275 864	426 158	519 773	438 773	438 773	397 080	404 290	428 887
Municipal Infrastructure Grant (MIG)		422 793	271 324	366 158	358 773	358 773	358 773	394 080	404 290	428 887
Regional Bulk Infrastructure		–	–	–	140 000	40 000	40 000	3 000	–	–
Municipal Water Infrastructure Grant		25 851	4 541	60 000	21 000	40 000	40 000	–	–	–
Provincial Government:		–	61 899	–	–	44 000	44 000	–	–	–
Human Settlements (ACIP)		–	61 899	–	–	44 000	44 000	–	–	–
District Municipality:		–	–	–	–	–	–	–	–	–
Operational Grant from Ehlanzeni District										
Other grant providers:		–	–	–	130 000	130 000	130 000	110 000	55 000	64 000
[insert description]										
Water Service Infrastructure Grant		–	–	–	130 000	130 000	130 000	110 000	55 000	64 000
Total Capital Transfers and Grants	5	448 644	337 764	426 158	649 773	612 773	612 773	507 080	459 290	492 887
TOTAL RECEIPTS OF TRANSFERS & GRANTS		956 315	894 585	1 094 021	1 307 661	1 270 661	1 270 661	1 207 212	1 187 227	1 262 286

Operational Grants for 2017/18 FY, amounts to R 700 132 000, which represents 58 percent of the total grants allocated to the municipality, whilst the Capital Grants amounts to R 507 080 000, which represents 42 percent of the total grants allocated.

TABLE 2: SUMMARY OF DRAFT BUDGET FOR 2017/18 FY

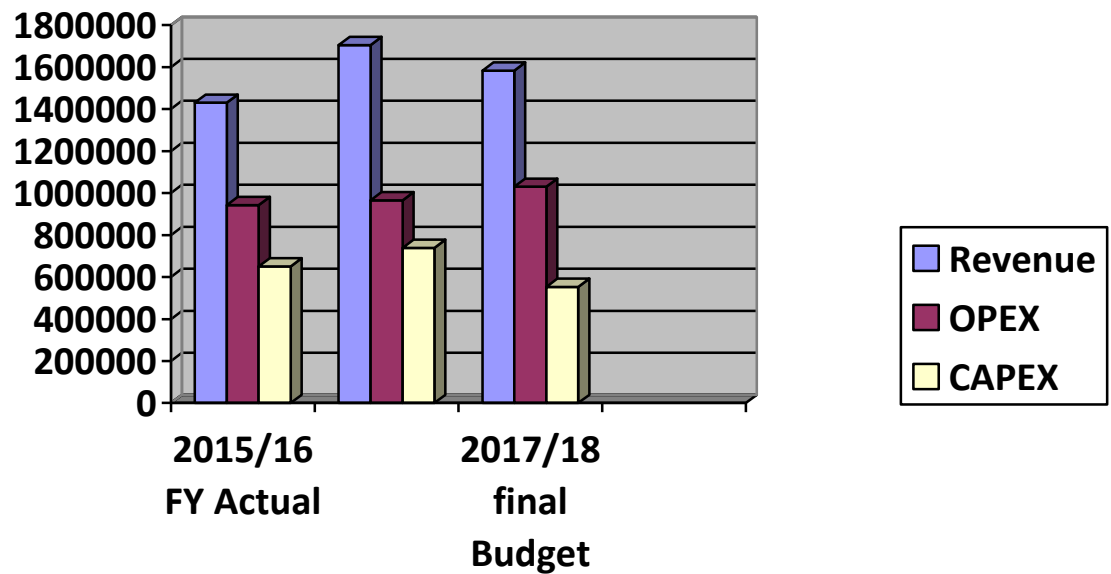
DESCRIPTION	BUDGET AMOUNT	% ALLOCATION	
REVENUE			
GRANTS	R 1 207 212 000	76,26%	
OWN REVENUE PROJECTED	R 375 768 000	23,74%	
TOTAL REVENUE	R 1 582 980 000	100,00%	
LESS EXPENDITURES			
OPEX	R 1 029 940 000	65,06%	
CAPEX	R 553 040 000	34,94%	
TOTAL EXPENDITURES	R 1 582 980 000	100,00%	
SURPLUS / DEFICIT	R 0		
COMPARISON OF FINANCIAL YEARS			
	2016/17 ADJUSTED	2017/18 DRAFT BUDGET	% INCREASE / DECREASE
OPEX	R 966 008 000	R 1 029 940 000	6,21%
CAPEX	R 739 094 000	R 553 040 000	-33,64%
TOTAL BUDGET	R 1 705 102 000	R 1 582 980 000	-7,71%

The above table clearly indicates that the municipality still depends mostly on the Government Grants in order to render the services to its communities.

OPEX amounts to 65 percent of the total budget, and 35 percent represents CAPEX. The increase in the operational expenditure is mainly due to the increase in number of programmes to be implemented by the directorates, and the decrease in the capital expenditure was mainly due to the reduction in the grants allocated to the municipality.

The Graph below indicates the comparisons from 2015/16 FY to 2017/18 FY

Comparison of the Revenue, OPEX and CAPEX for outer years



In comparison with the 2015/16 final audited figures, OPEX budget increased from R 942 180 000 to R 972 070 000 in 2016/17 final adjusted budget, and increased to R 1 013 684 000 in 2017/18 Draft Budget.

CAPEX budget in terms of the audited figure for 2015/16 was R 653 98 000, and it was decreased to R 630 845 000 in terms of the adjusted budget for 2016/17, and further show drastic decrease in 2017/18 draft budget with an amount of R 544 403 000 due to the reduction in capital grants allocated to the municipality in 2017/18 FY.

TABLE 3. SUMMARY OF OPERATIONAL EXPENDITURE PER DIRECTORATE**MP325 Bushbuckridge - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)**

Vote Description R thousand	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Expenditure by Vote to be appropriated	1									
Vote 1 - Dept 001 - Budget & Treasury Office		116 658	142 137	209 543	148 944	203 794	203 794	258 837	276 465	290 397
Vote 2 - Dept 002 - Corporate Services		258 820	313 463	368 314	382 124	396 444	396 444	115 758	123 438	47 605
Vote 3 - Dept 005 - Economic Development, Planning & E		1 458	3 236	5 478	12 560	10 145	10 145	27 344	29 148	31 085
Vote 4 - Dept 006- Community Support Services		25 034	25 621	32 134	43 752	44 197	44 197	106 483	113 385	120 880
Vote 5 - Dept 008 - Office of the Municipal Manager		1 108	2 418	3 730	6 950	6 320	6 320	32 685	35 252	38 021
Vote 6 - Dept 009 - Office of the Speaker		24 489	28 437	26 358	33 641	32 441	32 441	35 041	37 143	39 372
Vote 7 - Dept 010 - Office of the Mayor		537	979	1 149	1 424	1 374	1 374	2 476	2 955	3 129
Vote 8 - Dept 013 - Community Support Services - Traffic		2 743	3 390	7 710	7 301	5 141	5 141	17 528	18 681	19 910
Vote 9 - Dept 014 - Technical Services - Public Works		31 938	26 869	53 553	21 842	29 342	29 342	41 550	38 137	40 514
Vote 10 - Dept 015 - Technical Services - Water		184 394	222 458	226 115	203 234	233 784	233 784	322 325	342 506	363 957
Vote 11 - Det 016 - Technical Services - Roads		2 669	3 742	5 524	9 935	5 185	5 185	50 176	52 738	56 426
Vote 12 - Dept 017 - EDPE - Refuse		650	594	621	1 307	957	957	6 468	6 856	7 267
Vote 13 - Dept 018 - Technical Services - Sewerage		15 644	5 886	1 951	6 446	2 946	2 946	8 018	8 541	9 054
Vote 14 - Dapt 020 - Municipal Works - PMU		9 361	6 033	-	-	-	-	5 252	5 567	5 901
0		-	-	-	-	-	-	-	-	-
Total Expenditure by Vote	2	675 504	785 262	942 180	879 460	972 070	972 070	1 029 940	1 090 813	1 073 518

The above table indicates that most of the funds for operational budget have been allocated to the Water Services Department, due to the bulk water purchase from Rand Water, to ensure constant supply of water to the communities, with R 233,000,000 budgeted for 2017/18.

Finance directorate is the second highest in terms of the budget allocated, due to the provision for bad debts that amounts to R 122,304,000, which arose due to the low revenue collection by the municipality., and followed by the depreciation that amounts to R 72,000,000.

ATTACHED AS ANNEXURE A IS THE DETAILED REVENUE AND EXPENDITURE PER VOTE AND DIRECTORATE.

TABLE 4. SUMMARY OF CAPITAL BUDGET ALLOCATION PER DEPARTMENT

MP325 Bushbuckridge - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description R thousand	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue &			
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	% Allocation	Budget Year +1 2018/19	Budget Year +2 2019/20
Capital expenditure - Vote											
Multi-year expenditure to be appropriated	2										
Vote 1 - Dept 001 - Budget & Treasury Office		–	–	–	–	–	–	1 452	0,26%	–	–
Vote 2 - Dept 002 - Corporate Services		5 827	3 643	8 619	25 250	16 650	16 650	6 220	1,12%	9 451	12 393
Vote 3 - Dept 005 - Economic Development, Planning &		4 526	4 756	4 814	24 450	20 550	20 550	27 683	5,01%	20 000	41 000
Vote 4 - Dept 006 - Community Support Services		10 286	8 138	1 814	2 550	1 920	1 920	1 160	0,21%	2 500	–
Vote 5 - Dept 008 - Office of the Municipal Manager		–	–	–	–	–	–	213	0,0003851	216	218
Vote 6 - Dept 009 - Office of the Speaker		–	–	–	–	–	–	309	0,0005587	312	314
Vote 7 - Dept 010 - Office of the Mayor		–	–	–	–	–	–	164	0,03%	164	164
Vote 8 - Dept 013 - Community Support Services - Traf		–	–	–	–	–	–	2 095	0,38%	2 516	2 418
Vote 9 - Dept 014 - Technical Services - Public Works		7 540	2 585	4 637	5 000	5 000	5 000	800	0,14%	–	–
Vote 10 - Dept 015 - Technical Services - Water		187 681	152 835	500 070	461 936	438 070	438 070	408 615	73,89%	170 500	138 500
Vote 11 - Det 016 - Technical Services - Roads		145 094	110 856	105 215	77 350	90 895	90 895	49 880	9,02%	9 275	–
Vote 12 - Dept 017 - EDPE - Refuse		–	2 057	–	4 500	3 300	3 300	1 800	0,33%	3 800	4 500
Vote 13 - Dept 018 - Technical Services - Sewerage		33 302	18 267	13 549	60 200	27 200	27 200	19 154	3,46%	40 000	–
Vote 14 - Dapt 020 - Municipal Works - PMU		11 643	7 192	11 679	69 103	27 260	27 260	33 495	6,06%	216	218
0		–	–	–	–	–	–	–		–	–
Capital multi-year expenditure sub-total	7	405 900	310 329	650 398	730 339	630 845	630 845	553 040		258 948	199 726
Capital Expenditure - Functional											
Governance and administration		–	–	–	–	–	–	1 761		312	314
Executive and council		–	–	–	–	–	–	309	0,06%	312	314
Finance and administration		–	–	–	–	–	–	1 452	0,26%	–	–
Internal audit											
Community and public safety		1 675	4 706	1 251	47 105	11 005	11 005	21 400		–	–
Community and social services											
Sport and recreation		1 675	4 706	1 251	37 405	3 205	3 205	13 900	2,51%	–	–
Public safety											
Housing		–	–	–	9 700	7 800	7 800	7 500	1,36%	–	–
Health											
Economic and environmental services		149 620	115 612	110 030	101 800	111 445	111 445	77 563		29 275	41 000
Planning and development		4 526	4 756	4 814	24 450	20 550	20 550	27 683	5,01%	20 000	41 000
Road transport		145 094	110 856	105 215	77 350	90 895	90 895	49 880	9,02%	9 275	–
Environmental protection											
Trading services		237 996	176 472	526 871	550 834	484 443	484 443	440 369		214 300	143 000
Energy sources		17 013	3 313	13 251	24 198	15 873	15 873	10 800	1,95%	–	–
Water management		187 681	152 835	500 070	461 936	438 070	438 070	408 615	73,89%	170 500	138 500
Waste water management		33 302	18 267	13 549	60 200	27 200	27 200	19 154	3,46%	40 000	–
Waste management		–	2 057	–	4 500	3 300	3 300	1 800	0,33%	3 800	4 500
Other		16 609	13 539	12 247	30 600	23 952	23 952	11 947	2,16%		
Total Capital Expenditure - Functional	3	405 900	310 329	650 398	730 339	630 845	630 845	553 040		243 887	184 314

The above table indicates the capital budget per directorate, with Water Services indicating a higher allocation of 73.89 percent of the capital budget that has been allocated to Water, for completion of Bulk water projects and implementation of water

reticulation by the Rand Water Board and the municipality to the BLM communities. Water projects will be funded by MIG, MWIG, WSIG & RBIG.

Road projects amounts to 9 percent of the capital budget, and they will be funded through MIG funds, for the completion of upgrading of the internal streets in R 329 Towns. Only few road projects will be funded through by the municipality, for rehabilitations of tarred roads.

EDPE projects amount to 5% of the total allocation, in order to finalise the formalization of Towns in selected areas within the bushbuckridge.

5 percent of the capital budget has been allocated to Sanitation / Sewerage project, which will be funded through MIG

Electrification projects budget amounts to 1.% of the capital budget, and they will be funded by INEP Grant

ATTACHED AS ANNEXURE B IS THE CAPITAL PROJECTS PER DIRECTORATE

6. LEGAL IMPLICATIONS

As embodied in the Section 53 of the Municipal Finance Management Act (MFMA).

7. COMMENTS BY REGIONAL MANAGERS

Supported, all the Regional Managers, Managers, Unit Heads and Directors were requested to provide the budget inputs for 2017/18 FY.

8. IMPLEMENTATION PLAN

As per the approved IDP, SDBIP and Budget.

9. COMMENTS BY THE MUNICIPAL MANAGER

- The final budget for 2017/18 shows a major changes in comparison with the previous year's budget due to the mSCOA implementation
- Debt collection and credit control policies should be implemented effectively and efficiently.
- The difference between water billing and bulk water supply still remains a major concern for the municipality, hence the Installation of water meters

by the water services should be fast tracked in order to boost revenue collection for the municipality.

10. IT IS RECOMMENDED THAT

- a) The council approve the final mSCOA budget for 2017/18 FY.
- b) The Municipal Manager submits the final annual budget in both electronic and hard copies to Provincial and National Treasury.

C. LISA
MUNICIPAL MANAGER
AUTHOR OF REPORT